

Consider the fact that each year since 2014 both corn and soybean futures prices have peaked somewhere between early April and mid-July. Farmers were able to pre-harvest market a portion of their new crop corn and soybeans during the early growing season at prices that proved to be much higher than those received at harvest. Those farmers could have delivered priced bushels at or shortly after harvest and avoided additional storage and interest charges and generated necessary cash flow.

Each spring the new crop futures prices built in risk premium due to uncertainty in producing in the northern hemisphere. During this period, December new crop corn and November new crop soybean futures prices tend to trade above their crop insurance projected prices established annually in the month of February. In 2018, those prices were \$3.96 per bushel for corn and \$10.16 for soybeans, respectively. Thus, the strategy to sell a portion of your expected crop production in the spring months when future prices trade above the projected prices occurred in each of the past five years.

Why Seasonals Occur

Most years, corn futures prices tend to rally in the early spring months and peak by late June or early July. This reflects the period of the greatest uncertainty of production for a crop produced primarily in the northern hemisphere. The December Corn (Figure 1) and November Soybean (Figure 2) futures prices are indexed annually to 100 each January from the years 2000 thru 2017.

Soybean futures prices move higher in both the late fall and winter months when southern hemisphere production is threatened. Then soybean prices typically rally again in the late spring and early summer months, reflecting uncertainty of production in the northern hemisphere.

Figure 1. December Corn Seasonal Trends (2000-2017 Futures Indexed)



Source: www.cffm.umn.edu, *Usset*, October 2017

Figure 2. November Soybean Seasonal Trends (2000-2017 Futures Indexed)



Source: www.cffm.umn.edu, *Usset*, October 2017

However, by mid-July the highest seasonal prices have occurred for both crops and futures prices tend to sell off with the confirmation of large northern hemisphere crops. Commodity funds that speculated weather concerns likely exit their “long futures” positions and prices decline into harvest.

Selling Crop Insurance Bushels

Crop insurance as a risk management tool is utilized by most row crop farms. The most common product used by Iowa farmers each year to insure corn and soybean crops is Revenue Protection (RP) (Figure 3). This product provides

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a guarantee of the farm’s actual production history (APH) yields multiplied by the level of coverage elected annually multiplied by the higher of the projected price (futures price average in February) or harvest price (futures price average in October).

The use of crop insurance revenue products such as RP can easily be used in combination with a pre-harvest sales strategy that commits guaranteed insurance bushels to delivery. Use of forward contracts and hedge-to-arrive contracts (HTA) are common tools for committing a portion of these insurance bushels to delivery as the farm’s APH yields are guaranteed along with at least the projected price. It’s still important to understand how to use a variety of marketing tools. For bushels that you prefer not to commit to delivery, consider protecting the futures price with tools such as futures hedges or buying put options.

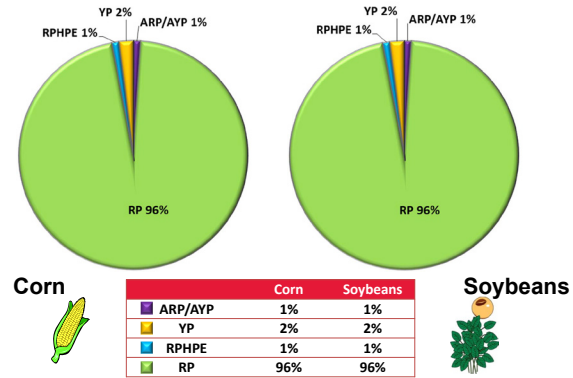
The Written Marketing Plan

Farmers should make every effort to avoid marketing mistakes of the past by knowing their own cost of production for new crop bushels and establishing a reasonable breakeven cash price. Consider having both time and price objectives in place going into the spring months. Price objectives should reflect both futures prices when above the projected prices used for crop insurance purposes, basis (cash minus futures), and a breakeven price along with a reasonable return to management.

The cost of production for growing crops will vary greatly by farm and can be highly dependent on final crop yields. The use of RP crop insurance mitigates a large portion of both the yield and price uncertainty for marketing new crop bushels. Consider using your APH as your best yield estimate prior to pollination and grain fill.

Farmers that typically have a written marketing plan develop a purpose and accountability

Figure 3. Iowa Crop Insurance Coverage (2017)



Revenue Protection = 96% of Insured Acres (Corn & Soybeans)

to market a portion of those crops ahead and align their cash flow needs. Storage and interest charges are not free and many farm operations are challenged by their ability to find profitable margins. Holding multiple years of corn or soybean crops can lead to the erosion of valuable working capital (current assets minus liabilities) and could mean the need for restructuring debt into a period of higher interest rates.

Utilize A Variety Of Marketing Tools

Farmers should use a variety of marketing tools to spread their risk and attempt to time sales in the spring months to capture futures when prices are high or basis when it narrows. These events tend not to occur at the same time. So using only spot cash and forward cash contracts can have serious limitations, especially if yield is cut drastically short.

The combination of low futures prices and wide basis, especially at harvest, has created the need for more aggressive pre-harvest marketing strategies than might have been used in the past. Consider not just the use of HTA or forward contracts, but the use of January soybeans or March corn futures to reward on-farm storage and still meet winter cash flow needs.

When pre-harvest marketing new crop bushels committed to delivery consider HTA or forward cash contracts, depending on the basis expected. Should a farmer prefer to manage the futures price risk and not commit bushels to delivery, consider working with a broker and the use of futures hedges or the purchase of put options.

Further information on pre-harvest marketing new crop can be viewed in the accompanying video, <https://vimeo.com/279550381>. Also see the complete series on Risk Management Practices, www.extension.iastate.edu/agdm/wdothier.html.



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